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**FINANCE AND BUDGET COMMITTEE
JULY 18, 2007**

SUBJECT: EXCESS LIABILITY INSURANCE PROGRAM FOR OPERATIONS

ACTION: PURCHASE EXCESS LIABILITY INSURANCE

RECOMMENDATION

Authorize the Chief Executive Officer to negotiate and award Excess Liability Insurance policies not to exceed \$4.9 million for the 12-month period effective August 1, 2007 through July 31, 2008.

ISSUE

Metro's excess liability insurance policies expire July 31, 2007. Metro's insurance broker, Aon Risk Services, is responsible for marketing the excess liability insurance program renewal to qualified insurance carriers. Quotes have been finalized from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. Staff has reviewed these quotes to ensure that the policy has been adequately marketed.

BACKGROUND

Excess liability coverage insures against losses by Metro for bus and rail accidents for bodily injury and property damage to third parties. The excess liability coverage also includes limited employment practices liability insurance. Without this insurance, Metro would be exposed to catastrophic operating losses from bus and rail accidents. Metro would also be in violation of the contracts and agreements, such as sale/leaseback, requiring Metro to carry excess liability insurance.

FINANCIAL IMPACT

Funding for eleven months of this \$4.9 million in premiums is included in the FY08 budget. The remaining month of premiums will be included in the FY09 budget cost center 0531, Risk Management – Non Departmental Costs, under projects 301001 Bus Operations – San Fernando Valley (SFV), 302001 – San Gabriel Valley (SGV), 303001 – Gateway, 304001 – South Bay (SB), 305001 – Westside Central (WC), 301012 – Metro Orange Line, 300022, Rail Operations - Blue Line, 300033, Rail Operations – Green Line, and 300044, Rail Operations – Red Line, 300055, Rail Operations - Gold Line. In FY07, \$5.0 million will be expensed on this item.

ALTERNATIVES CONSIDERED

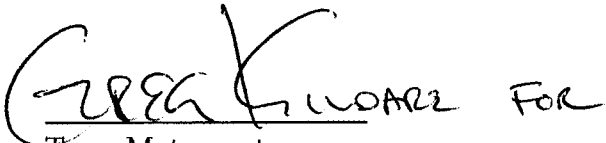
Staff considered various deductibles and limits of coverage options (see Attachment A). Metro's estimated penetration of the excess layer and premium history is also shown in this attachment. Casualty loss premiums seem to be stable in the current environment of relatively favorable investment returns. Therefore, we received a slight decrease in premiums for coverage identical to last year.

The recommended Option A secures a self-insurance retention at \$4,500,000 with \$95,500,000 in coverage excess of this retention, identical to the expiring program. Metro has evaluated increasing deductibles and limits as shown in Attachment A. For example, preliminary premium indications showed that increasing the retention to \$7.5 million from \$4.5 million only realized a savings of \$300,000, insufficient premium savings to recommend an addition \$2,500,000 in risk. Attachment B shows the final carriers selected (identical to last year) and pricing. Attachment C details carriers contacted regarding participation in Metro's program.

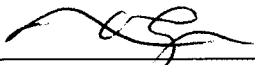
The recommended Option A includes limited terrorism risk coverage in those insured layers where pricing is reasonable. Last year, Metro purchased terrorism coverage in the first layer (\$5.5 million excess of the \$4.5 million retention) and in the fourth layer (\$15.0 million excess of \$35 million). We are again recommending this structure for an additional premium of approximately \$60,000. To fill out the balance of the \$100 million in limits with terrorism coverage would cost roughly \$1.6 million and is not recommended.

ATTACHMENTS

- A. OPTIONS, PREMIUMS AND LOSS HISTORY
- B. FINAL PRICING AND CARRIERS
- C. CARRIERS CONTACTED

 FOR

Terry Matsumoto
Chief Financial Services Officer & Treasurer



Roger Snoble
Chief Executive Officer

ATTACHMENT A

OPTIONS, PREMIUMS AND LOSS HISTORY

CURRENT PROGRAM	OPTIONS			
	A Prelim	A Final	B Prelim	C Prelim
Self-Insured Retention (\$ in millions)	4.5	4.5	5.0	7.5
Limit of Coverage (\$ in millions)	100.0	100.0	100.0	100.0
Not to Exceed Premium (\$ in millions)	5.0	4.9	5.2	5.0

	POLICY YEARS						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	
Self-Insured Retention (\$ in millions)	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Premium (\$ in millions)	2.8	4.1	5.4	5.4	5.1	5.0	5.0
Claims in Excess of Retention	1	-	2	1	unknown	unknown	unknown
Amount in Excess of Retention (est. \$ in millions)	0.9	-	2.3	9.8	unknown	unknown	unknown

ATTACHMENT B

FINAL PRICING AND CARRIERS

Layer	Carrier	Coverage	Retention	Premium	Taxes/Fees	Base Premium	Terrorism	Terrorism Insurance Elected	Proposed Layer including Terrorism
1	Insurance Company of the State of PA	\$ 10,000,000	\$ 4,500,000	\$ 2,510,801	\$ -	\$ 2,510,801	\$ 25,108	Yes	\$ 2,535,909
2	Lexington Insurance	10,000,000	-	489,850	15,308	505,158	101,032	No	\$ 505,158
3	Great American	15,000,000	-	603,200	-	603,200	622,050	No	\$ 603,200
4	XL Insurance America	15,000,000	-	359,759	-	359,759	37,325	Yes	\$ 397,084
5	Starr Excess Liability Insurance	50,000,000	-	804,861	25,152	830,013	830,013	No	\$ 830,013
		\$ 100,000,000	\$ 4,500,000	\$ 4,768,471	\$ 40,460	\$ 4,808,931	\$ 1,615,527		\$ 4,871,364
Sublimits									
\$100,000,000	Any one occurrence except wreck removal costs or expenses								
\$100,000,000	Products/Completed Operations Aggregate								
\$50,000,000	Errors and Omissions Aggregate other than personal and advertising injury offense								
\$100,000,000	Employee Benefit Liability Aggregate								
\$10,000,000	Employment Practices Liability Aggregate								
\$500,000	Retention at Gateway Center								

ATTACHMENT C

CARRIERS CONTACTED August 1, 2007 to July 31, 2008

<u>COMPANY</u>	<u>BEST RATING</u>
CV Starr – Everest Re	A+ XV
Insurance Company of the State of PA	A+ XV
Lexington	A+ XV
Munich Am Re	A+ XV
ACE	A+ XV
Admiral	A+ XII
Chubb	A++ XV
Scottsdale	A+ XV
XL	A+ XV
Arch RE	A XV
Winterthur	Bermuda
RLI	A XI
Starr Excess	A+ XV
Lloyds' of London	A XV
Genesis	A++ XV
Clarendon	A- X
Lancer	A- VII
Progressive	A+ XIII
ICW	A- IX
Zurich	A XV
Axa Re	A XIII
Newmarket Underwriters	A XIV
Steadfast	A XV
Great American	A XIV